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Livestock and Products

Annual Report

2006

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Report Highlights:
Growth in consumer demand for meat products is outpacing production and import growth. The beef sector will continue its decade-long implosion, while the pork sector will experience growth in 2007, albeit lower than in 2005 and 2006. Decreased feed production in 2006 may cause problems for livestock breeding next season.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
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Executive Summary

Russia meat imports increased 29.5 percent year-on-year in the first half of 2006. From January-June 2006, 510,500 tons of fresh and frozen meat valued at $930 million were imported. Despite rising meat prices, beef production continued its decline and the pork sector grew slower than previously forecast in 2005 and 2006. Even with slower growth in hog breeding in 2005 and 2006, the sector is forecast to expand faster in 2007 as the pig crop rebounds. The beef industry will continue its decade-long implosion, as investments continue to prove more attractive in other agricultural sectors. Decreased feed production in 2006 may negatively influence livestock breeding in 2007. Although agricultural production and the food processing industry are growing, the growth is less than half of the rate of growth of customer demand, thereby increasing import demand and prices.

Production

The trend continued in 2006 of modest increase in pork production and a significant decline in beef production. The rate of increase of pork production in 2007 is estimated to be slightly higher than in 2006. Processed meat production totaled 1.1 million tons from January-July 2006, up 12.1 percent year-on-year. Sausage production grew 5.6 percent to 1.2 million tons. According to the Russian Ministry of Economy Development and Trade, food processing industry and agricultural production are growing. However, the growth is less than half of the rate of growth of customer demand, thereby increasing import demand and prices.

As of August 1, 2006, there were 22.6 million head of cattle in Russia, a drop of 5.5 percent from the same date in 2005. Cows accounted for 9.5 million head of the total cattle figure, which indicates a decline of 6.4 percent. Pig inventories increased 5 percent to 15.6 million head while sheep and goats increased 3.1 percent 20.7 million head. Poultry held on large farms increased 10.8 percent to 251 million birds.

Small plots accounted for 46.4 percent (46.3 percent at the start of July 2005) of the cattle, 44.7 percent (47.6 percent) of the hogs, and 51.3 percent (53.7 percent) of the sheep and goats. According to the Ministry of Agriculture, total Russian meat production from January-August 1, 2006 was 3.7 million metric tons (mmt) (live weight for slaughter), 3.7 percent higher than for the same period last year. Pork production increased four percent and poultry production jumped 16.3 percent, while beef fell 6.5 percent. Meat and poultry production on large farms increased 8 percent to 2.05 mmt. Pork increased 9.5 percent, poultry expanded 19.3 percent, and beef production fell 7.8 percent.

Table 1. Number of Livestock 2004-2006, as of January 1, 2006 (1,000 head)

	2004	2005	2006	As of July 1, 2006
Cattle	24,935	23,067	21,400	22,800
Including cows	11,089	10,279	9,500	9,600
Pigs	15,980	14,211	13,300	15,300
Sheep and goats	17,037	16,986	17,300	21,000

Source: Russian State Statistics Committee

The Moscow city government has been encouraging local agro-holdings to invest in agricultural production. As a result, Moscow agro-holdings acquired 100 regional plants that according to the city reports helped reduce Moscow's dependence from outside suppliers by 25 percent. Domestic meat supplies increased 230 percent.

Feed production

Hay production decreased 14.9 percent for the first seven months of 2006 in comparison with 2005. Haylage and silage production decreased 6 percent and 5.8 percent, respectively. In total, feed production decreased 10 percent from January 1-August 1, 2006 in comparison with the previous year. Growth of feed consumption by the pork and poultry industries, a decrease in feed stocks due to lower hay and grain yield this season, and potentially high grain export demand may create a feed shortage next year, thereby possibly placing upward pressure on grain and meat prices beginning late fall 2006.

Consumption

Despite the reduction in the domestic beef cattle industry, consumption will not drop significantly due to imports. Beef consumption will decrease three percent in 2007, compared to two percent in 2006. Pork consumption is forecast to increase three percent in 2006 and four percent in 2007.

Moscow meat consumption is already double the amount of total Russian consumption. The Moscow city government has been encouraging local agro holdings to invest in agricultural production. As a result, Moscow agro holdings acquired 100 regional plants, resulting in a 230 percent increase in local supplies.

Trade

According to the Russian Federal Customs Service (FTS), Russian meat imports increased 29.5 percent year-on-year during the first half of 2006. From January-June 2006, fresh and frozen meat imports totaled 510,500 tons, valued at $930 million. Beef, pork, and mutton imports increased 16.9 percent, 38.6 percent, and 310 percent, respectively.

Due to last year's lower prices and duties, Russia imported meat well in excess of set quotas. Roughly 180,000 tons of beef were imported at over quota with higher customs duty. Brazil, Argentina, Uruguay, and Paraguay continue to be the main exporting countries. Brazilian beef exports to Russia continue to grow despite an unfavorable foreign exchange rate since October 2005 and a ban of exports from much of the country due to Foot and Mouth Disease outbreaks. Large Brazilian beef exporters were not hurt by the ban since they just transferred beef production to states that were not banned from exporting. Russia lifted the ban on imports of pork and beef from the Brazilian state of Mato Grosso on August 10, 2006. Imports of pork and beef produced after July 1, 2006 were allowed. The import ban imposed last December 13 is still in effect against seven Brazilian states.

Meat prices

Beef prices (on August 1) for imported and domestically produced product have both increased by approximately 15 percent during the past year. Pork prices increased 5 percent for domestic product and 2 percent for imports. Beef import prices are expected to be stable or decrease as the Russian government approved redistribution of the European Union's unused beef quota allocation to other countries.

Table 1: Russian Beef and Pork Wholesale Prices (Offer Prices), Half Carcasses, April 2003 – August 2006

Date	Exchange rate, ruble/$	Domestic beef	Imported beef	Domestic pork	Imported pork
04/30/2003	31.10	48.00	46.35	40.25	44.62
06/30/2003	30.34	47.00	49.45	42.51	49.00
09/30/2003	30.61	58.00	52.75	51.33	61.60
12/30/2003	29.25	51.00	54.96	52.50	53.89
03/30/2004	28.49	66.00	67.05	55.17	55.05
06/30/2004	29.03	64.50	65.99	64.33	76.05
09/30/2004	29.22	66.75	70.50	87.50	86.86
12/29/2004	27.78	72.00	81.17	83.50	84.12
03/30/2005	27.83	85.00	83.15	79.50	81.53
06/30/2005	28.67	82.02	81.28	76.67	78.24
09/30/2005	28.50	83.33	85.37	82.00	85.76
10/30/2005	28.42	84.10	85.87	84.50	84.76
11/30/2005	28.73	82.92	85.88	81.50	84.41
12/30/2005	28.75	81.00	85.41	85.00	88.10
01/30/2006	28.02	89.38	88.17	89.00	89.33
02/28/2006	28.12	88.60	88.56	85.14	92.01
03/30/2006	27.80	100.88	100.67	87.00	88.58
04/30/2006	27.36	102.25	100.79	83.63	91.11
05/30/2006	27.07	100.19	100.11	86.20	92.99
06/30/2006	27.08	97.25	96.33	85.62	91.33
07/30/2006	26.84	96.30	96.98	88.05	86.42
08/30/2006	26.74	95.00	100.25	86.00	86.75

Source: Institute of Agrarian Market Research (IKAR)
Prices are in rubles per kilogram.

Stocks

Pork and beef stocks were sufficient and stable in 2006 as TRQs were administrated in proper time.

Policy

The Russian government amended a Resolution allowing importers to reallocate country quotas in case of unfavorable epizootic situations, by wording "as well as in the case of continuation for more than 3 months in a year of restrictions for exports introduced previously by a country-supplier (union of countries) and (or) absence of required volume of a commodity at a market of the country-supplier (union of countries)."

The amendment may result in greater manipulation of the TRQ prescribed in accordance with the GOR Resolution #732, issued on December 5, 2005 "On the import of beef, pork and poultry in 2006-2009."

Russia previously reached an understanding on the partial redistribution of quotas on frozen beef imports from the European Union to other countries, the Economic Development and Trade Ministry said in a statement on its website. In relation to the introduction by the Federal Service for Veterinary and Phytosanitary Control (VPSS) of partial bans on beef imports from EU members, Russia has reached an understanding on the use by other countries of 150,000 tons (43.6 percent) of the EU quota for frozen beef imports in 2006. Importers will be allowed to alter their licenses to import frozen beef in quantities not exceeding 43.6 percent of the amount calculated for them based on EU imports for 2006. The Ministry instructed the relevant authorities in the regions to alter licenses issued for frozen beef imports from the EU for 2006.

VPSS has sent requests to veterinary services in the Netherlands, Germany and Belgium about reported cases of Bluetongue Disease and relevant measures to stop its spread. VPSS will study the situation and consult with European colleagues to evaluate whether the steps they are taking are adequate, effective, and in compliance with the OIE code. The European Commission's Health and Consumer Protection Directorate General notified Russia that Bluetongue Disease has been registered in cattle in the Netherlands as well as in sheep in 11 farms in Liege province in Belgium, and at eight cattle farms and one sheep farm in North Rhine-Westphalia in Germany.

Marketing

Shelf life for fresh/chilled meat

In accordance with technical regulations developed in the Soviet days, fresh/chilled meat was defined as meat with shelf life not more than 14 days. This regulation is to be changed to allow refrigerated vacuum packed meat with shelf life up to 45 days to be considered chilled. The new document has been prepared and is expected to be signed this fall. Pork and beef traders will profit from this change while poultry producers probably will not as it increases production costs by 15 percent. New technologies allow meat to be stored up to 45 days, but the chain from slaughter to the retail is not appropriately equipped in most cases.

There is concern about the safety of meat sold when the regulation is approved. Market analysts say few domestic facilities have the special equipment capable of preserving freshness for 45 days, and only major retail chains will be able to do so. If the new regulation is approved, it may change the structure of types of meat imports.

Meat transportation conditions

The food transportation infrastructure is underdeveloped in Russia, which may cause problems for the meat sector. Some companies are actively expanding their own transportation fleet and are considering plans to build specialized distribution centers. However, many agricultural producers do not plan to invest in their own transportation and logistics and the market may run into problems storing and supplying meat by 2010 due to growth in sales of meat products.

National Agriculture Development Project

The Ministry of Agriculture received a total of 3,700 proposed projects for the construction of new farms and upgrade of existing farms, and 1,160 were selected.

Eight-year credits worth 32.7 billion rubles ($1.2 billion USD) were allocated for the construction, reconstruction and modernization of the livestock industry during the first six months of 2006. The total sum is expected to reach 40 billion rubles ($1.5 billion USD) by the end of 2006.

Russian agricultural producers have raised 105 billion rubles ($3.9 billion USD) in loans in 2006 for the construction and upgrade of meat and dairy complexes as part of the National

Agriculture Development Project. Budgeted funds totaling 3.45 billion rubles ($129 million USD) were allocated this year to subsidize two-thirds of the interest rates on these loans. These subsidies were distributed in 72 regions and enabled 105 billion rubles ($3.9 billion USD) to be raised.

Some Russian meat sector analysts feel that national project participants may face difficulties with the sale of their products due to the expansion of subsidized imports, outdated processing methods, and interaction difficulties with trade networks. Impracticable logistics, price and other demands make product access to the networks difficult. There are also concerns that there will be mass dumping of cattle by household farms, where 50-52 percent of Russia's meat and dairy products are produced. The population in the villages is getting older and the young generation does not want to become involved in this work.

Moscow city to actively participate in the project

Twelve Moscow agro holdings are planning to take part in the National Priority Projects in 10 Russian regions. Twenty modern livestock farms will be constructed, which will raise 870,000 pigs and 31,000 of heads of cattle, producing 60,000 MT of meat annually. The agro holding companies are buying shares of bankrupt regional plants, investing considerable resources into them, and starting production. Moscow agro holdings acquired 100 regional plants. As a result, the agro holdings produced one million MT of meat, milk and grain and decreased Moscow's dependence from the outside regional suppliers by 25 percent. Supplies of domestic meat increased 230 percent and butter 440 percent.

PS&D Tables

PSD Table

Country	Russian Federation					
Commodity	Animal Numbers, Cattle				(1000 HEAD)	
	2005 USDA Official [Old]	Revised Post Estimate[New]	2006 USDA Official [Old]	Estimate Post Estimate[New]	2007 USDA Official [Old]	Forecast Post Estimate[New]
Market Year Begin		01/2005		01/2006		01/2007
Total Cattle Beg. Stks	21100	21100	19850	19850	18575	18695
Dairy Cows Beg. Stks	10430	10430	9770	9770	0	9250
Beef Cows Beg. Stocks	0	0	0	0	0	0
Production (Calf Crop)	7950	7950	7480	7500	0	7110
Intra EC Imports	0	0	0	0	0	0
Total Imports	10	10	40	40	0	60
TOTAL Imports	10	10	40	40	0	60
TOTAL SUPPLY	29060	29060	27370	27390	18575	25865
Intra EC Exports	0	0	0	0	0	0
Total Exports	5	5	5	5	0	5
TOTAL Exports	5	5	5	5	0	5
Cow Slaughter	1650	1650	1560	1500	0	1440
Calf Slaughter	0	0	0	0	0	0
Other Slaughter	7360	7360	7120	7110	0	6701
Total Slaughter	9010	9010	8680	8610	0	8141
Loss	195	195	110	80	0	80
Ending Inventories	19850	19850	18575	18695	0	17639
TOTAL DISTRIBUTION	29060	29060	27370	27390	0	25865

PSD Table

Country	Russian Federation					
Commodity	Meat, Beef and Veal				(1000 MT CWE)(1000 HEAD)	
	2005 USDA Official [Old]	Revised Post Estimate[New]	2006 USDA Official [Old]	Estimate Post Estimate[New]	2007 USDA Official [Old]	Forecast Post Estimate[New]
Market Year Begin		01/2005		01/2006		01/2007
Slaughter (Reference)	9010	9010	8680	8610	0	8141
Beginning Stocks	0	0	0	0	0	0
Production	1525	1525	1470	1460	0	1380
Intra EC Imports	0	0	0	0	0	0
Total Imports	680	680	710	710	0	720
TOTAL Imports	680	680	710	710	0	720
TOTAL SUPPLY	2205	2205	2180	2170	0	2100
Intra EC Exports	0	0	0	0	0	0
Total Exports	5	5	5	5	0	5
TOTAL Exports	5	5	5	5	0	5
Human Dom. Consumption	2155	2155	2135	2125	0	2050
Other Use, Losses	45	45	40	40	0	45
TOTAL Dom. Consumption	2200	2200	2175	2165	0	2095
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2205	2205	2180	2170	0	2100
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table

Country	**Russian Federation**					
Commodity	**Animal Numbers, Swine**				(1000 HEAD)	
	2005 USDA Official [Old]	Revised Post Estimate[New]	2006 USDA Official [Old]	Estimate Post Estimate[New]	2007 USDA Official [Old]	Forecast Post Estimate[New]
Market Year Begin		01/2005		01/2006		01/2007
TOTAL Beginning Stocks	16500	16500	16680	16550	18400	17610
Sow Beginning Stocks	3500	3500	3600	3600	0	3800
Production (Pig Crop)	36000	35500	38200	37000	0	39300
Intra EC Imports	0	0	0	0	0	0
Total Imports	45	45	50	60	0	60
TOTAL Imports	45	45	50	60	0	60
TOTAL SUPPLY	52545	52045	54930	53610	18400	56970
Intra EC Exports	0	0	0	0	0	0
Total Exports	0	1	0	1	0	1
TOTAL Exports	0	1	0	1	0	1
Sow Slaughter	0	0	0	0	0	0
OTHER SLAUGHTER	31865	31500	32450	32500	0	34450
Total Slaughter	31865	31500	32450	32500	0	34450
Loss	4000	3994	4080	3499	0	3679
Ending Inventories	16680	16550	18400	17610	0	18840
TOTAL DISTRIBUTION	52545	52045	54930	53610	0	56970
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table

Country	**Russian Federation**					
Commodity	**Meat, Swine**				(1000 MT CWE)(1000 HEAD)	
	2005 USDA Official [Old]	Revised Post Estimate[New]	2006 USDA Official [Old]	Estimate Post Estimate[New]	2007 USDA Official [Old]	Forecast Post Estimate[New]
Market Year Begin		01/2005		01/2006		01/2007
Slaughter (Reference)	31865	31500	32450	32500	0	34450
Beginning Stocks	0	0	0	0	0	0
Production	1755	1735	1785	1800	0	1910
Intra EC Imports	0	0	0	0	0	0
Total Imports	675	675	700	700	0	700
TOTAL Imports	675	675	700	700	0	700
TOTAL SUPPLY	2430	2410	2485	2500	0	2610
Intra EC Exports	0	0	0	0	0	0
Total Exports	1	1	1	1	0	1
TOTAL Exports	1	1	1	1	0	1
Human Dom. Consumption	2365	2345	2425	2440	0	2555
Other Use, Losses	64	64	59	59	0	54
TOTAL Dom. Consumption	2429	2409	2484	2499	0	2609
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2430	2410	2485	2500	0	2610
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0